

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Balsz Elementary School District No. 31

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Gregg Rickert, Manager and Contact Person
grickert@azauditor.gov

Cris Cable
Mitchell McCroskey

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 25, 2005

Governing Board
Balsz Elementary School District No. 31
4825 East Roosevelt Street
Phoenix, AZ 85008

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



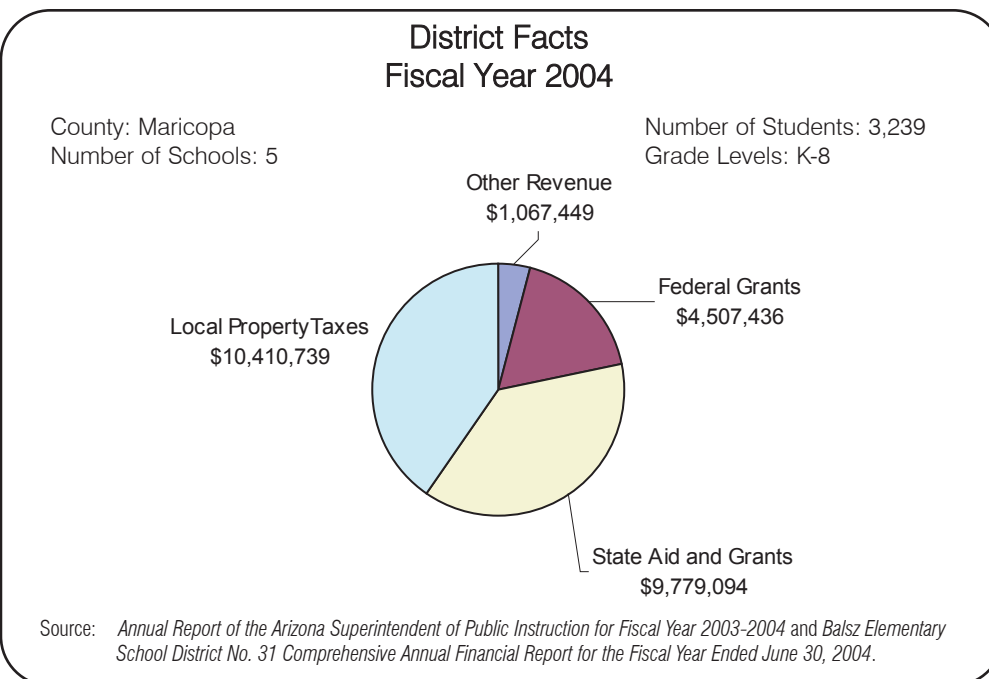
Introduction	1
Recommendation 1: The District should strengthen controls over capital assets	2
Recommendation 2: The District must follow competitive purchasing requirements	2
Recommendation 3: The District's attendance records should be supported by documentation	3
Recommendation 4: The District should strengthen controls over budget preparation	4

INTRODUCTION

Balsz Elementary School District No. 31 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$25.7 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should strengthen controls over capital assets

The District did not protect its investment in capital assets from loss, theft, and destruction, since its capital assets were not adequately insured.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to maintain accurate lists of these assets and to insure them. However, the District did not accomplish this objective. Specifically, the District did not reconcile assets added to its capital assets and stewardship lists to capital expenditures to ensure all assets were added to the lists. In addition, for the last 2 fiscal years, the District did not maintain adequate insurance coverage for all of its capital assets, as required by statute. Further, the District did not tag or otherwise identify some items on its stewardship list so it could locate the items on its premises.

Recommendations

The following procedures can help the District improve control over its assets and ensure accurate and complete capital assets and stewardship lists:

- Safeguard capital assets by obtaining adequate insurance coverage to replace the assets in the case of loss, theft, or destruction.
- Mark all items included on the stewardship list with an identifying number and as property of the district.
- Reconcile items added to the capital assets and stewardship lists to capital expenditures annually, and the current year's lists to the previous year's lists to ensure that the lists have been accurately updated for additions and disposals.

The forms on USFR pages VI-E-13 and 14 may be used to reconcile capital asset additions to capital expenditures and the current year's capital assets list to the previous year's list.

The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules or the USFR guidelines. For example, for the only purchase requiring competitive sealed bids, the District did not retain documentation

to support that it provided adequate notice of the invitation to bid or that it stamped bids with the date and time received. Additionally, the District did not always obtain or document oral price quotations for purchases that required them.

Recommendations

To strengthen controls over purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Solicit bids or proposals for purchases exceeding \$33,689.
- Provide adequate notice to vendors of invitations for bids (IFB) or requests for proposals (RFP) and document the dates that the IFB or RFP was published to support the notice given.
- Document the bidders that responded before the bid deadline by retaining evidence of the date and time that bids or proposals were received, such as stamping bid packets with date and time received.
- Obtain and document, in writing, oral price quotations from at least three vendors for purchases costing between \$5,000 and \$15,000.

School District Procurement Rules provide the requirements for competitive sealed bids for goods and services in excess of \$33,689.

The District's attendance records should be supported by documentation

The State of Arizona provides funding to school districts based on membership and absences. In turn, accurate attendance records are essential to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not report partial day absences for kindergarten and elementary students accurately, retain entry forms for all students, or record withdrawal dates on all withdrawal forms. In addition, attendance records maintained by the District's teachers did not always agree with the District's computerized attendance records, and one teacher's attendance records could not be located. Finally, the District's records of membership and absences did not support the numbers reported to ADE.

The District overstated its average daily membership and, consequently, may have received too much state aid.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should record and report membership and absences in accordance with ADE's *Instructions for Required Reports*. A second employee should verify that

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

membership and absences reported to ADE are calculated accurately and agree with the District's attendance records, including teacher attendance registers, if prepared.

The District should strengthen controls over budget preparation

The District's Governing Board is required to adopt an expenditure budget that ensures that the public monies it receives are used only for statutorily allowed purposes and that it meets all of its debt obligations. However, the District did not fully accomplish these objectives. Specifically, the District carried over incorrect budget balances for all three of its Classroom Site Funds to the current year's budget. Also, the District did not accumulate sufficient cash to make principal and interest payments on its outstanding debt and, as a result, the District's Debt Service Fund had a deficit fund balance at June 30, 2004.

Recommendations

To help ensure that the District can spend the allowable amount of Classroom Site Fund monies and that the monies are spent for appropriate purposes, the District should properly carry forward the unexpended budget balances for each of the three Classroom Site Funds to the following year's budget in accordance with Arizona Revised Statutes §15-978. Additionally, to help ensure that the District meets its debt obligations without incurring deficit fund balances, the District should ensure that secondary property taxes are sufficient to make its principal and interest payments. If uncollectible taxes result in insufficient cash to cover a year's payments, the District should ensure that additional amounts are levied in the next year to make up the difference.

USFR memorandum
Nos. 194 and 215
provide guidance on
accounting for the
Classroom Site Fund.